

2012

Rhode Island Current Conditions Index — April 2012

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CURRENT CONDITIONS INDEX

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Analyzing and forecasting an economy has always been part science and part art. In light of the situation Rhode Island currently finds itself in, based on the likelihood that the "official" labor market data for this state is inaccurate, I guess you can add navigating through fact versus fiction to the above list.

Since existing labor market data are very likely understating two CCI indicators, **Private Service Producing Employment** and **Employment Service Jobs**, and overstating one other, the **Unemployment Rate**, I will now be providing two CCI estimates each month as the likely range for the CCI. This will continue until the flawed data disappears, hopefully next February.

So, in spite of what you continue to hear in this state, payroll employment has not fallen for eight consecutive months. Nor is Rhode Island close to a double-dip recession. Interestingly, though, with that many alleged consecutive drops in employment, why haven't those analysts who believe the currently released labor market data actually made the recession call? I had avoided doing that prior to the revelation of the flawed labor market data, since the Current Conditions Index failed then, as it continues now, to show the requisite signal for a recession: six or more consecutive values in the contraction range of below 50.

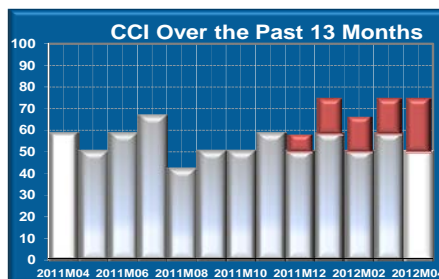
With all of this in mind, Rhode Island entered the second quarter of 2012 on a positive note, as its re-acceleration from the mid-2011 doldrums continued. In spite of the fact that Current Conditions Index values based on the faulty existing labor market data (upper values) continue to show readings barely above stall speed, allowing for likely data revisions, the CCI has moved into the range of 67—75 throughout this entire year. This should not

On a year-over-year basis, four of the five non-survey-based CCI indicators improved. Only three of the five showed improvement on a monthly basis, though — something for us to keep an eye on. **Retail Sales** increased by 1.6 percent, its eighth consecutive improvement compared to year-earlier values. Part of this is no doubt related to the skilled Rhode Islanders we rent out to neighboring states who bring their income home with them from states whose jobless rates we can only fantasize about here. Clearly, though, **Retail Sales** momentum is continuing. Along with this, **US Consumer Sentiment** rose as well, by 9.2 percent. For both of these indicators, April values exceeded their March levels. New home construction, based on **Single-Unit Permits**, continued its roller coaster ride, rising by 7.5 percent in April relative to last year. It too rose relative to March. **New Claims** for Unemployment Insurance, a leading labor market indicator that reflects layoffs, declined by 8.8 percent, its fifth improvement in the last six months. Finally, **Benefit Exhaustions**, reflective of longer-term unemployment, failed to improve for the first time in almost a year.

In spite of tenuous labor market data, my models say that Rhode Island's **Unemployment Rate** fell slightly in April, to 10.7 percent. But even my models indicate that our state's **Labor Force** continues to decline. Finally, the performance of Rhode Island's manufacturing sector continued to be very good, as **Total Manufacturing Hours** improved, but by an amount that is unknown at present. For the **Manufacturing Wage**, start by taking the square root of the published growth rate (of 17.7%).

| CCI Indicators - % Change | |
|----------------------------|--------|
| Government Employment | -1.5 |
| US Consumer Sentiment | 9.2 Y |
| Single-Unit Permits | 7.5 Y |
| Retail Sales | 1.6 Y |
| Employment Services Jobs | -6.1 |
| Priv. Serv-Prod Employment | -1.0 |
| Total Manufacturing Hours | 1.5 Y |
| Manufacturing Wage | 17.7 Y |
| Labor Force | -1.4 |
| Benefit Exhaustions | 3.5 |
| New Claims | -8.8 Y |
| Unemployment Rate (change) | 0.0 |
| Y = Improved Value | |

be construed as indicating that this recent acceleration is particularly rapid. Rhode Island continues to find itself in a sluggish recovery. It is the *persistence* of these higher CCI values that matters the most for now. We have moved above stall speed. As of April, Rhode Island's recovery reached its 26th month.



| DLT April Employment (SA,Y/Y) | |
|-------------------------------|---------|
| Gain | 1,600? |
| Loss | 5,900? |
| Net Chg | -4,300? |

THE BOTTOM LINE

The second quarter started with a continuation of the reacceleration that followed the doldrums of the second half of 2011. Rhode Island's economy is definitely doing better than it did then. There are, however, reasons to believe that this recent acceleration may be losing momentum, as the growth rates in several key non-survey based indicators are moderating. And, of course, we can't overlook the fact that the national economy is also slowing. The good news is that Rhode Island now has at least some margin for error.

| 50/ 75 | | Jan | Feb | Mar | Apr | May | Jun | Jul | Aug | Sep | Oct | Nov | Dec |
|-----------|------|-----------|-----------|-----------|-----------|-----|-----|-----|-----|-----|-----|-----|-----------|
| | 2011 | 50 | 67 | 67 | 58 | 50 | 58 | 67 | 42 | 50 | 50 | 58 | 50/ 58 |
| | 2012 | 58/ 75 | 50/ 67 | 58/ 75 | 50/ 75 | | | | | | | | |